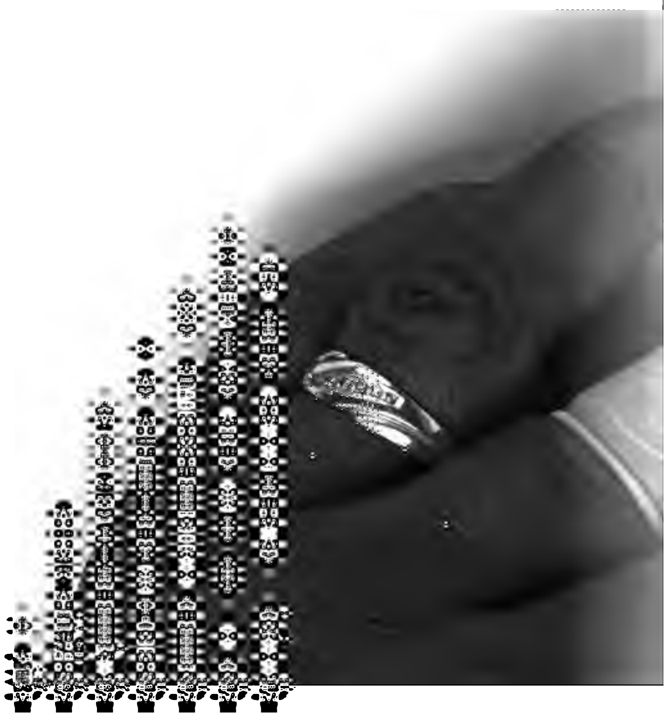

COMMITTEE ON BANKING AND CURRENCY.

House of Representatives.

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

LOUIS T. McFADDEN, Pennsylvania, *Chairman*.

PORTER H. DALE, Vermont.
EDWARD J. KING, Illinois.
FRANK D. SCOTT, Michigan.
ADOLPHUS P. NELSON, Wisconsin.
JAMES G. STRONG, Kansas.
LEONARD S. ECHOLS, West Virginia.
EDWARD S. BROOKS, Pennsylvania.
ROBERT LUCE, Massachusetts.
CLARENCE MacGREGOR, New York.
JAMES W. DUNBAR, Indiana.
LESTER D. VOLK, New York.
T. FRANK APPLEBY, New Jersey.
HENRY F. LAWRENCE, Missouri.
E. HART FENN, Connecticut.
OTIS WINGO, Arkansas.
HENRY B. STEAGALL, Alabama.
CHARLES H. BRAND, Georgia.
WILLIAM F. STEVENSON, South Carolina.
EUGENE BLACK, Texas.
T. ALAN GOLDSBOROUGH, Maryland.

Philip G. Thompson, *Clerk*.

AMENDMENT TO THE FARM LOAN ACT.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Friday, July 22, 1921.

The committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will please come to order. The committee voted yesterday to hold further hearings on the Clague bill this morning. I beg to advise the committee that I have communicated with the Federal Farm Loan Board. Judge Lobdell has just called on the telephone and says that the other members of the board are on their way up here.

Mr. Clague, do you care to say anything?

Mr. CLAGUE. I have not very much more to say than has already been said.

STATEMENT OF HON. FRANK CLAGUE, MEMBER OF CONGRESS FROM MINNESOTA.

Mr. CLAGUE. I feel that this measure is an emergency measure at this time, and that it should be passed.

Mr. MACGREGOR. What is the bill?

The CHAIRMAN. The Clague bill.

Mr. MACGREGOR. I know that, but that does not mean anything to me.

The CHAIRMAN. It provides for increasing to $5\frac{1}{2}$ per cent the rate of interest on farm loan bonds.

Mr. CLAGUE. I want to say to you, gentlemen, just a few words to show you the critical condition and the advantage which is being taken of our farmers in the Northwest regarding loans. There never have been as many farm mortgages being foreclosed in the history of our country as are being foreclosed at the present time, in southwestern Minnesota and southern Minnesota and northern Iowa, and through that country, on lands that are the very best of security.

I have here correspondence from one of the leading loan companies——

Mr. ECHOLS. What loan company is that?

Mr. CLAGUE. The Union Central Life Insurance Co. of Cincinnati. I will just read the correspondence. It is very short. [Reading:]

RE: JOSEPH ZWACH $7,000 BALANCE LOAN COVERING SE. $\frac{1}{4}$ AND E. $\frac{1}{2}$ OF SW. $\frac{1}{4}$, 3-110-39, REDWOOD COUNTY.

JUNE 1, 1921.

The UNION CENTRAL LIFE INSURANCE CO.,
Cincinnati, Ohio.

(Attention, financial department.)

GENTLEMEN: The interest on the above loan, amounting to $385, will be due July 1, 1921, and I am writing you for an extension of said interest at the

request of Mr. Zwach. You will notice that Mr. Zwach in previous years has been very prompt in taking care of his interest; but, on account of the decrease in the prices of farm products and the fact that he has had considerable sickness in his family and recently lost his oldest boy and from the further fact that he has just lost all of his hogs with cholera, he is placed in a position where it will be impossible for him to pay the interest promptly on July 1.

Mr. Zwach regrets this very much. Under ordinary conditions we would gladly advance him the money with which to pay this interest, but we are not loaning and will not be until the 1921 crop begins to move.

It is quite possible that he can take care of this interest by the 1st of September, and he will gladly pay you current rates on the delinquent interest up to that time.

We appreciate the fact that you undoubtedly are getting requests by the score for extensions of this kind, but as Mr. Zwach's case is exceptional, we trust that you will be able to grant him the accommodation.

Yours, truly,

——— ———, *President.*

WD:K

THE UNION CENTRAL LIFE INSURANCE CO.,
Cincinnati, June 6, 1921.

Mr. WILLIAM DUNCAN, Jr.,
President, State Bank of Milroy, Milroy, Minn.

DEAR SIR: I have your request for the extension of the above note, and ordinarily we would refuse your request, because we rely upon the prompt payment of notes due us in order to meet our own obligations.

However, in view of Mr. Zwach's difficulties we will not enforce the immediate collection of the above note, providing all parties that now own the land will sign the form below, agreeing to pay in the future the rate of 6 per cent on the loan.

If he desires to take advantage of this offer, please have the form dated and signed by all the parties that own the land, and detach and return it to this office by the next mail. The above note draws interest at the rate of 5½ per cent until paid.

Yours, respectfully,

LOUIS BRAILING, *Treasurer.*

Here is the new form that they require providing for interest at 6½ per cent.

In consideration of the forbearance by The Union Central Life Insurance Co. for the next few months, to foreclose a certain mortgage executed by Joseph Zwach to said company, dated September 28, 1917, securing the principal sum of $8,000, and recorded in the records of Redwood County, Minn., upon which mortgage there will be a delinquency, I agree to pay interest on the principal of the mortgage indebtedness, beginning July 1, 1921, at the rate of 6½ per cent per annum, payable annually on July 1 until paid.

In witness whereof I have hereunto caused my name to be subscribed this ——— day of ———, 19—.

——— ———.

Loan No. 108647.

The CHAIRMAN. What was the old rate of interest?

Mr. CLAGUE. Five and a half per cent.

Here is the reply to the last letter I read:

JUNE 9, 1921.

UNION CENTRAL LIFE INSURANCE CO.,
Financial Department, Cincinnati, Ohio.

GENTLEMEN: Re your loan No. 108647 (Joseph Zwach).

I have your letter of the 6th instant relative to an extension of the interest coupon on the above loan that will be due July 1, 1921, in the amount of $385.

According to your letter you state:

"Agreeing to pay in the future the rate of 6 per cent on the loan," while on the bottom of the letter on the form to be signed by the owner you state as follows:

"I agree to pay interest on the principal of mortgage indebtedness, beginning July 1, 1921, at the rate of 6½ per cent annually until maturity."

There is a discrepancy of ½ per cent interest. The proposition is not quite clear to me and I am wondering if it is your plan to ask an increase in the rate of interest of 1 per cent per annum until maturity, making $560 for an extension of one interest payment of $385 for 90 to 120 days.

I should be pleased to be advised regarding this, so that I can take the matter up with Mr. Zwach further.

Yours, truly,

——— ———,
President.

UNION CENTRAL LIFE INSURANCE CO.,
Cincinnati, June 23, 1921.

Mr. WM. DUNCAN, Jr., No. 108,647
President State Bank of Milroy, Milroy, Minn. Joseph Zwack.

DEAR SIR: Your letter of June 9, with reference to the above numbered loan, has been received.

I find that in our letter of June 6, interest rate in the third paragraph should have been 6½ per cent; or, in other words, we propose not to enforce immediate collection of the July 1, 1921, note provided all parties that own the land would sign the form agreeing to pay interest at the rate of 6½ per cent on the loan.

Yours, respectfully,

LOUIS BREILING, *Treasurer.*

STATE BANK OF MILROY,
Milroy, Minn., June 28, 1921.

Mr. W. H. GOLD,
Redwood Falls, Minn.

DEAR MR. GOLD: You will recall the conversation I had with you regarding the attitude of the Union Life Insurance Co. relative to an interest payment due July 1 on a loan that we made for them some years ago.

This loan covers 240 acres of well-improved land about 5 miles south of Milroy, in Gales Township. The loan was originally made for $8,000 and $1,000 was paid on the principal two years ago. The loan still has eight years to run.

In my letter of June 1, a copy of which is herewith inclosed, I asked for a 60-day extension of the $385 interest payment. They have asked an increased rate of 1 per cent per annum on the balance of the loan to maturity if the interest is not paid July 1.

The correspondence inclosed herewith is indeed interesting, and it seems to me that they certainly are taking undue advantage of the borrower. If this correspondence is of any value to you in connection with the bill now before Congress you may use it. I, however, would like the correspondence for my files after it has served your purpose.

Yours, truly,

WM. DUNCAN, Jr., *President.*

Mr. WINGO. How long is the time?

Mr. CLAGUE. Eight years.

Mr. WINGO. They want to increase the interest rate to 6½ per cent?

Mr. CLAGUE. Yes; for that extension of $385.

Mr. WINGO. How long has the loan yet to run?

Mr. CLAGUE. Eight years.

Mr. WINGO. Are they making any other loans in that territory?

Mr. CLAGUE. Oh, this company has loaned hundreds of thousands of dollars.

Mr. WINGO. Are they doing it now?

Mr. CLAGUE. I do not think they are loaning a dollar.

That is just a fair sample, Mr. Chairman and gentlemen.

I have letters here from, I think, a hundred different banks in my district, and this is the first one that I have found where the interest

has not been paid. The most of them, when the interest is paid, are demanding their money, and you just simply can not get a new loan without paying a very exorbitant rate.

Mr. KING. How many loans do you have that are similar to that?

Mr. CLAGUE. I think I wrote to over a hundred people. I have replies from about 90 different banks in the district asking that this bill be passed, even as an emergency measure, to give some relief. Most of these banks, two or three years ago, or a year ago, were opposed to the land banks.

Mr. ECHOLS. Have these banks asked that this bill be passed?

Mr. CLAGUE. I wrote them, inquiring what they thought about it, to give me an idea of their testimony regarding it.

Mr. BROOKS. What is your district?

Mr. CLAGUE. The second district of Minnesota. It is wholly a farming district, and is possibly as good a farming district as there is in the country.

Mr. FENN. The gentleman from Kansas was asked the other day to state if there had been any foreclosures in his section of the country, and he said that there had not been, and he remarked, also, that the banks had been very kind to them. Your statement here is different from his. I would like to ask whether your loans are made through banks, chiefly, or through organizations, such as the Union Central Life Insurance Co.?

Mr. CLAGUE. They are made first through the banks. The banks act as agents for these different loaning companies. This particular bank—the State Bank of Milroy—is a local agent for the Union Central Life Insurance Co.

Mr. FENN. It is a little different situation from the situation in Kansas.

Mr. CLAGUE. I can say this without any fear of contradiction, that I lived in that country for 35 years, and I have never known as many foreclosures on first-class securities. I can give one particular instance in regard to two different loans, one of $8,000 and the other of $6,000. The land is finely improved farm land. I think the man was offered $300 an acre about two years ago, but now his payments are due and the mortgage is being foreclosed.

Mr. FENN. Then these loans do not come directly from banks?

Mr. CLAGUE. Oh, no. These loans are from loaning companies.

Mr. FENN. Why do they not get them from banks?

Mr. CLAGUE. My dear sir, the local banks do not have the money to loan on farm securities. That is unknown in the Northwest.

Mr. LAWRENCE. How long a time was that loan made for—10 years?

Mr. CLAGUE. Normally there are no loans made to exceed 10 years by loaning companies. They have never done that. Most of them are 5-year loans.

Mr. WINGO. When was this made?

Mr. CLAGUE. Two years ago.

Mr. WINGO. Five and a half per cent two years ago?

Mr. CLAGUE. Yes, sir.

Mr. BROOKS. Are these loans being called now on account of the depression in the value of farms?

Mr. CLAGUE. No.

Mr. BROOKS. What is the reason?

Mr. CLAGUE. They are just simply demanding their money, so they can put it out and charge a larger rate of interest; because they can put it out at 6 and 7 per cent and get a commission besides.

Mr. BROOKS. If the loans were made for 10 years, how is it that they can call them?

Mr. CLAGUE. I am speaking largely of loans that are due, now. This man asked 60 days on account of his hogs all dying of hog cholera. We have a siege of hog cholera out in our territory. The farmers expect at this time of the year to sell their hogs and take care of their interest, but this year we had an attack of hog cholera that took away practically all our hogs.

Mr. DALE. To whom are they loaning the money?

Mr. CLAGUE. Lots of them are loaning it to farmers, but at higher rates of interest and charging commissions. The commissions are running anywhere from 5 to 15 per cent.

Mr. DALE. Do you not have any statute prohibiting that?

Mr. CLAGUE. Our legal rate of interest is 10 per cent in our State; but if a banker charges a commission of 2, 5, 6, or 7 per cent, that does not touch it, you understand. That is for your trouble and your work in getting the loan. Our farmers are glad to pay almost anything to get a loan.

I know of one particular instance that came under my own observation while I was home in April. A man came to me and said, "Mr. Clague, I have a loan of $7,000 coming due." I knew the man that loaned the money in that particular instance. The loan was drawing 8 per cent, and he demanded a cash bonus of $500. That was against our law; but what could a poor devil do that was going to have his mortgage foreclosed?

Mr. BRAND. Why should he demand a cash bonus? Was it due?

Mr. CLAGUE. In that particular instance it was due.

Mr. BRAND. Then he had a right to call for his money?

Mr. CLAGUE. Yes; of course. But he not only wanted 10 per cent interest, but he wanted a large cash bonus besides.

Mr. FENN. What are new loans made for out there?

Mr. CLAGUE. It is practically impossible to get money on farm lands at the present time for less than 7 to 8 per cent.

Mr. FENN. The rates have gone up everywhere.

Mr. CLAGUE. Oh, yes.

Mr. WINGO. They are making loans at 7 and 8 per cent, and then they are demanding a commission?

Mr. CLAGUE. Yes, sir; extremely high commissions.

Mr. WINGO. That is where the real trouble comes in. The farmer would not object to paying 6 to 8 per cent under present conditions if he were not held up on commissions.

Mr. CLAGUE. He is held up everywhere on commissions. I do not believe for a second that this bill is going to give relief to everybody, but we do feel, gentlemen, that this bill should go through as an emergency measure, and if these joint-stock land banks are allowed to function it will do something to relieve the situation.

Mr. BRAND. Can you get any relief through the Federal Farm Loan Bureau?

Mr. CLAGUE. They only lend small loans up to $10,000, and they have only a very limited amount. I am in favor of the farm loan banks, but in my particular county I want to say that the men who

are getting the advantage of the Farm Loan Bureau are our very best-off farmers. There is nothing to take care of the ordinary poor devils.

Mr. WINGO. This is a seven or eight thousand dollar loan that you refer to?

Mr. CLAGUE. Yes, sir.

Mr. WINGO. Has the farm loan bank refused to make a loan? That is within the limit of the farm loan system.

Mr. CLAGUE. We can not do it. We are short.

Mr. WINGO. Why are you short?

Mr. CLAGUE. Because Mr. Lever will tell you that they have applications for five times the amount that they can take care of.

Mr. WINGO. In other words, it comes back to the proposition that the banks have not sufficient funds to take care of the demand?

Mr. CLAGUE. That is it, exactly, Mr. Wingo. We want to get money from every possible source to relieve our situation.

Mr. BRAND. Do you not think that the banks ought to have more money than they have?

Mr. CLAGUE. Yes; I do.

Mr. BRAND. How did you vote on that in the House the other day?

Mr. CLAGUE. I voted for it. Do not forget that.

Mr. BRAND. Did you vote for the five millions?

Mr. MACGREGOR. Oh, yes; he voted for it.

Mr. BRAND. I hope so.

Mr. MACGREGOR. There were only four who voted against it. One was myself.

Mr. WINGO. All but three of you voted against giving sufficient funds.

Mr. CLAGUE. I want to see this Farm Loan Board function.

Mr. BRAND. We do, too.

Mr. CLAGUE. There is one statement that I want to make for the benefit of Mr. Lever and Mr. Lobdell particularly, because Mr. Lobdell has said that this takes care of the poor man. It does not always.

In my partcular county the men that have gotten money from the Farm Loan Board are the best-off farmers. When a man only needs about $6,000 in my county and has a good farm, he takes it through that source; but a man that is owing ten to fifteen thousand dollars and who has to make a loan of that kind has to go to some other place to get his money. The Federal land bank is doing a wonderful thing, but at this particular time we need all these banks to function. This money is not going to be kept at home. If we get this money it goes to the people in the East.

Mr. MACGREGOR. Why do you not have the State pass a criminal statute——

Mr. CLAGUE. How would that help to get the money?

Mr. MACGREGOR. You need to get civilized out there.

Mr. STRONG. It is not the lack of civilization out there; it is the outrageous uncivilization of the eastern fellows. We pay tribute to you fellows.

Mr. NELSON. It is your contention that under the present rate of 5 per cent for the sale of bonds it is impossible for these joint-stock land banks to function?

Mr. CLAGUE. It is.

Mr. NELSON. And it is your belief that 5½ per cent will enable them to function?

Mr. CLAGUE. Yes, sir.

Mr. NELSON. Is that based upon the judgment of the various joint-stock land bank men—the presidents and the officers?

Mr. CLAGUE. Yes, sir.

Mr. NELSON. And it is their contention that if we can make it 5½ per cent the banks can go on functioning and sell their bonds?

Mr. CLAGUE. Yes, sir. Present in the room is Mr. John R. Mitchell, from one of our leading banks in Minnesota, and he knows the situation a thousand times better than I do.

Mr. WINGO. Do you think that if you have a bank that has not sufficient capital to meet the demand, if you just permit it to increase the interest rate it will meet the lack of capital?

Mr. CLAGUE. No; not alone. I agree with you on that. You can not make it just with the rate of interest; not at all.

(Witness excused.)

The CHAIRMAN. Mr. John R. Mitchell, a member of the Federal Reserve Board, is here and we will be glad to hear him at this time.

STATEMENT OF HON. JOHN R. MITCHELL, MEMBER OF THE FEDERAL RESERVE BOARD.

Mr. MITCHELL. Mr. Chairman, I have been asked to express my personal opinion regarding the Clague bill, and I have drawn up a little statement here which I would like to read to you, expressing my judgment of the matter.

The passage of this bill will greatly relieve the very much extended credit conditions in the agricultural States, and particularly in Iowa and Minnesota and Texas.

In those States farmers have borrowed from their banks on their unsecured notes, and in many instances their lands are clear of incumbrance. They are unable to secure long-time loans from insurance companies, as they are not lending freely on mortgages; they can not get loans from mortgage-loan companies, except at what appears to the farmer very high rates, if at all. The result is that the country bank is obliged to carry the load.

If the Clague bill, amending the Federal farm loan act, should be adopted, without any doubt the joint-stock land banks will make many new loans, as their bonds should find a ready market at 5½ per cent.

Furthermore, there are large amounts of joint-stock land bank bonds now being carried by city banks, which can not be sold on account of the rate which they bear. If the rate is increased to 5½ per cent these bonds can also be distributed among investors.

The effect of the proposed amendment, as I understand it, simply increases the rate the bonds may bear, from 5 per cent to 5½ per cent, but does not increase the rate to the borrower. In other words, it would reduce the profit to the joint-stock land banks and increase the profit to the investor, which is absolutely necessary to sell the bonds. It appears to me that this is a matter that concerns only the joint-stock land banks and the investor.

When interest rates come down to normal, without doubt the joint-land banks will voluntarily reduce the rate of their bonds to 5 per cent.

Mr. DUNBAR. What would you call "down to normal?"

Mr. MITCHELL. Minnesota mortgages, in normal times, demand a ready market at 6 per cent, and in some cases 5 per cent.

Mr. DUNBAR. The Federal reserve banks have reduced their interest to 5½ per cent, have they not?

Mr. STRONG. Some of them.

Mr. MITCHELL. Some of them; yes.

Mr. DUNBAR. Will not all of them follow suit?

Mr. WINGO. That reduction is not in the agricultural districts.

Mr. DUNBAR. I know, but they are trying to lead up to that.

Mr. MITCHELL. That is a matter for the Federal reserve banks themselves to decide. I can not answer that question.

Mr. DUNBAR. They usually make their interest uniform after a short period of time. When one Federal reserve bank fixes an interest rate, another one will follow, and within not a great length of time afterwards. Why can not the Federal reserve bank finance these banks?

Mr. MITCHELL. These are long-time loans. These bonds ought to be sold to investors for a long time.

Mr. LAWRENCE. You said that a great many of the city banks are now holding these loans of the joint-stock land banks; and if the rate were increased they could unload these. Do you mean to imply that bonds already issued would bear 5½ per cent?

Mr. MITCHELL. I imagine that, if they have bonds outstanding that are now being carried by the city banks for the benefit of the joint-stock land banks, if this bill passes they will take down the bonds and reissue them at the authorized rate of 5½ per cent.

Mr. LAWRENCE. In all fairness to the other investors they ought to take them all up and reissue them?

Mr. MITCHELL. Theoretically.

Mr. WINGO. You have another think coming to you.

Mr. MITCHELL. Possibly I have. I say that might be done. I can not conceive of any objection to it; that is, if the joint-stock land banks have got the bonds that they are now operating on from city banks, waiting until they can sell the bonds.

Mr. WINGO. Oh, that is different. They are what in private business would be called Treasury bonds.

Mr. MITCHELL. The bonds belong to the joint-stock land banks. I should think they could take down those bonds and reissue them at 5½ per cent so they can sell them to the investor.

Mr. WINGO. You, of course, are very familiar with the northwestern situation. I do not know anything about that. I imagine it is nearly as bad as it is in Arkansas. We have an idea on this committee that the Federal Reserve Board has some influence with the Federal reserve banks. If you tell them to quit forcing the sale of cotton in Arkansas that is being held and for which there is no market, you will prevent some bankruptcies and help the farmers.

Mr. MITCHELL. I am not here for the purpose of discussing the cotton situation or the country bank situation.

Mr. WINGO. We are here discussing the farm situation, and I want to tell you that I am not speaking by hearsay. I can give you the names, and I can furnish you with a carbon copy of a statement of the Federal reserve bank of St. Louis in which they insist

that they will not carry certain bank acceptances unless they get rid of one batch of cotton and put up another. The only objection that they offered to the branch bank, when it came up for renewal, was that they thought it was the same cotton, and they said, "If it is other cotton we will carry this."

If you will stop that kind of business you will help the farmers considerably.

Mr. MITCHELL. If there is anything that you desire to say in regard to the Federal reserve bank of St. Louis I would be very glad, indeed, to have you write me, and I will take it up and investigate it.

Mr. WINGO. It is a very pressing situation. I have taken it up with the bank down there, and the difficulty is to try to find somebody who is responsible for that policy. Everybody is "passing the buck." The Federal Reserve Board says it is the country bank.

I wish you would tell Mr. Biggs, of the St. Louis bank—I wired to him about it and got a reply from him in which he undertook to explain it. The trouble was that it was a banker's acceptance, and this bank had exceeded its basic rate, etc. But in the letter that he wrote to the branch bank at Little Rock he did not raise any such question as that. He only raised that when I got in behind the matter. He specifically said in his letter of June 21 that if it was another lot of cotton they would carry it. There is only one inference to be drawn, and that is that the bank is trying to force the sale of farm commodities.

Mr. STEAGALL. The recent policy announced this week or last week would absolutely take care of that situation.

Mr. WINGO. That is what I am urging, that they carry out their announced policy and put it in practice.

Mr. STEAGALL. I think, so far as that is concerned, they are carrying it out already.

Mr. LUCE. What source of capital would this amendment reach?

Mr. MITCHELL. I think it would reach private investors. I think it would make a security that would be be attractive to private investors. It is a tax-exempt security of 5½ per cent. I think the investors would buy that security.

Mr. LUCE. Who would thereby be deprived of capital?

Mr. MITCHELL. The wealthy class, the investing class, would have an opportunity of buying a bond and they would benefit if this bill is passed.

Mr. LUCE. There is only just so much capital in the country ready for investment. If it were, by special privilege, given to one class, some other class is deprived of that capital. What class will suffer under this bill?

Mr. DUNBAR. Will Liberty bonds suffer?

Mr. MITCHELL. I do not think so. I do not see that any class is going to suffer.

Mr. LUCE. You can not take capital out of the sky or pick it from a rosebush.

Mr. STRONG. You can take it out of a stocking.

Mr. MITCHELL. It might take some money out of savings banks. It might cause some investors to realize on the securities that could be sold to other investors.

Mr. LUCE. If you take it out of savings banks it deprives other borrowers of the opportunity of getting that money.

Mr. MITCHELL. Theoretically I would say so.

Mr. LUCE. Why not practically?

Mr. MITCHELL. It is no serious matter. It is not anything to be alarmed at.

Mr. LUCE. If it is of any size at all, enough to remedy this situation, it must seriously affect the investor's market throughout the country.

Mr. MITCHELL. Not to any alarming degree.

Mr. LUCE. Then, is it at all worth while doing?

Mr. MITCHELL. Absolutely. There are benefits to be derived from increasing the rates of these bonds. As I stated, there are a lot of frozen credits in the country banks.

Mr. LUCE. Yes; but, Mr. Mitchell, you are getting away from the point in which I am interested. There is in process all through the country, in every corner of the country to-day, an abnormal number of bankruptcies. If the farmer of Minnesota is to be saved from bankruptcy by an excessive rate of interest on tax-exempt bonds, may that not push into bankruptcy the business man in Pennsylvania who might be able to get the money of which he is thereby deprived?

Mr. MITCHELL. I would say that there is practically no connection between the credit that the manufacturer in Pennsylvania might get if the farmer out in Minnesota is assisted.

Mr. LUCE. I happen to be a director of a small insurance company, and in every meeting of the board of directors there comes before us the question of where we shall invest money. It is an eastern company, and there are submitted to it mortgages from the West. If we take $5,000 and put it into a western mortgage rather than to put it into a real estate mortgage close by, there is a definite instance of where the better interest rate in the West takes money away from the near-by investor.

Mr. MITCHELL. That happens in every life insurance company.

Mr. LUCE. The money goes where the best interest is to be secured. What I am driving at is why you think that by giving an advantage to the western man who is hard up we shall not so much lessen the opportunity at the command of the eastern man who is hard up?

Mr. MITCHELL. I am not in sympathy—I might have stated that—I am not in sympathy with a tax-exempt security of any kind, but we have a law here which creates tax-exempt securities, and there have been a lot of them issued, and there are a lot of frozen credits to-day by reason of it. But in my opinion you ought to amend the law and make the rate one that will move these securities that are to-day tied up.

Mr. STEAGALL. You do not think it is a special favor to a man to give him a right to pay a higher rate of interest, do you?

Mr. MACGREGOR. It is a discrimination.

Mr. MITCHELL. This bill does not increase the rate to the borrower, sir.

Mr. STEAGALL. But if it did it would not be a special favor to give him a chance to pay a higher rate of interest in order to borrow money. Everybody has the right to pay as much as he pleases to borrow money.

Mr. STEVENSON. Nor does this bill purport to increase the amount that is loaned to the western fellow any more than it does to the eastern fellow.

Mr. LUCE. Will you tell me why, when I am sitting at the board of directors of this insurance company, with $5,000 of its policyholders' money to invest—it is a mutual company, and none of the men who run it have any interest or profit from it whatever—will you tell me why the western applicant for that loan should be given an advantage over the eastern applicant for that loan?

Mr. MITCHELL. I can not see any reason.

Mr. STRONG. Mr. Luce, do you not have any policyholders in your company who are in the West?

Mr. LUCE. Not in this particular company.

Mr. STRONG. Then I would keep all my money in the East.

Mr. STEVENSON. Is there any provision here that provides specifically for the West——

Mr. STRONG (interposing). The farm loan system does not cut any ice in the East.

Mr. STEVENSON. That is because they have got money and do not need any more. If they do not need money, then we ought to fix it so that it will be loaned when they do need it.

Mr. MITCHELL. I think the important part of this proposed amendment is that it simply increases the rate to the investor and reduces the profit to the joint-stock land bank.

Mr. STEVENSON. And the investor is a New Englander and is getting a better rate for his money and is kicking about the western farmer.

The CHAIRMAN. Do you not think that the interest rate to the borrower might be increased by this action? In other words, would the joint-stock land banks be able to borrow on one-half of 1 per cent?

Mr. MITCHELL. I think they will; yes. Of course, it does not give them as much of a profit as a 1 per cent spread would, but I believe they could borrow on one-half of 1 per cent and I think they are all very willing to tackle it.

The CHAIRMAN. You do not see any possible danger of raising the rates of interest to the borrower by raising the rate one-half of 1 per cent on these bonds?

Mr. MITCHELL. I can not see that it affects the rate of interest to the borrower a particle, and I can not see any reason for at any time in the future increasing the rate to the borrower.

The CHAIRMAN. Do you think that this interest rate being raised would have any general effect on the general level of interest rates? The tendency is, of course, to get lower interest rates, as is evidenced by the fact that the Federal Reserve Board has recently reduced rates in all of the 12 districts. Do you think this would have any effect on the public mind that it might be a raising of the rate rather than a lowering of it?

Mr. MITCHELL. I do not think it would have any effect at all, because it simply would mean that the rate on these bonds would be raised to the rate that the market to-day obliges the rate to be raised to in order to make them salable.

The CHAIRMAN. It is ostensibly for the purpose of relieving joint-stock land banks. There are some 29 of those banks scattered

through the Central West and their business is confined to that territory.

Mr. KING. Not by law.

The CHAIRMAN. No; but the fact is that they are established in those districts.

Do you think that that would have a tendency to raise the rate of interest on the regular farm loan bonds to all other borrowers?

Mr. MITCHELL. To what bonds do you refer?

The CHAIRMAN. I mean the Federal farm loan bonds. Would they still continue to sell their bonds on a 5 per cent basis if the joint-stock land banks sell their bonds on a 5½ per cent basis?

Mr. MITCHELL. No; I think the Federal farm loan bonds would have to be put on a 5½ per cent basis.

The CHAIRMAN. You would think, then, in view of the fact that the farm loan system has just sold forty millions of bonds and proposes to get out another issue soon, that that would be justified in order to help the joint stock land banks in raising their interest on all of the bonds that are sold? Do you think the emergency is such as to justify us in doing that?

Mr. MITCHELL. I think the emergency is such as would justify you in increasing the rate of interest on the joint stock land bank bonds.

I would like to ask if all of the new issue of Federal farm loan bank bonds have been sold.

The CHAIRMAN. Mr. Lever can answer that.

Mr. LEVER. The last issue is 5 per cent. All of the last issue have been sold.

Mr. STRONG. How long were you in selling them?

Mr. LEVER. About nine weeks.

Mr. MITCHELL. At 5 per cent?

Mr. LEVER. Yes.

Mr. STRONG. There is the answer.

Mr. MITCHELL. The joint stock land bank bonds are not considered quite as desirable as the Federal farm land bank bonds are.

Mr. DUNBAR. The United States is not responsible for the bonds of either system?

Mr. MITCHELL. Not directly.

Mr. FENN. That has been a mooted question. I wish you would tell us about it.

Mr. MITCHELL. I will ask you to excuse me from answering that question.

Mr. FENN. Excuse me for asking it.

The CHAIRMAN. Of course, we all realize that the demands on the Treasury are very great, and probably during the next year they will be greater than they are now.

Mr. STRONG. What demands?

The CHAIRMAN. The necessary refunding that is coming on, some seven and a half billions of Government securities. It is, of course, to the benefit of the Government as well as to all of the people that the burden of taxation be at the lowest point, and an important item in that connection is the rate of interest that the Government is to pay.

Do you think that the establishment of an increase to 5½ per cent might act as a tendency to peg the market for interest?

Mr. MITCHELL. I do not.

The CHAIRMAN. And fix it at a higher rate rather than to lower it?

Mr. MITCHELL. No, sir; I do not think it would affect the public sentiment on the rates on Government bonds, because this bond is an entirely different proposition from a Government obligation.

The CHAIRMAN. Can you tell the committee how many bonds the joint stock land banks propose to issue under this authority?

Mr. MITCHELL. I can not; I do not know. I can see no objection, gentlemen, to passing this bill, particularly as amended, limiting the rate of interest that the bonds may bear to 5½; that is, bonds that may be issued after June 30, 1923. That makes an emergency out of it; and in my opinion it is absolutely sound and it will relieve a lot of frozen credits that are to-day in the country banks and help the situation very materially.

Mr. KING. Would the passage of this act relieve the situation in the Middle West?

Mr. MITCHELL. It will; it will be a great benefit.

Mr. MACGREGOR. Did I understand you to say that you think the system is wrong?

Mr. MITCHELL. I am opposed to tax-free bonds.

Mr. STRONG. You would be opposed to tax-free bonds of municipalities and every other class of bonds?

Mr. MITCHELL. I am opposed to every kind of tax-free bonds.

Mr. KING. Do you gentlemen think that the Farm Loan Bureau could have sold $40,000,000 worth of 5 per cent bonds without that exemption?

Mr. MITCHELL. They could not.

Mr. BRAND. Would it hamper the sale of the farm loan bonds?

Mr. MITCHELL. The farm loan bonds have been sold. It is proposed to issue more.

Mr. BRAND. At what rate of interest, Mr. Lever?

Mr. LEVER. We do not know yet.

Mr. BRAND. Will there not be a demand to increase the rate of interest on the Federal farm loan bonds to 5½ per cent?

Mr. MITCHELL. There might be. Personally, I would not see any objection to it. I can not see any harm in doing it. If you can not sell them at 5 per cent, sell them at 5½. But there is a difference between the Federal farm loan bank bonds and the joint-stock land bonds.

Mr. BRAND. I know there is. Will it not inevitably follow that you have got to increase the rate on the Federal farm loan bonds? Will they not quit buying them?

Mr. MITCHELL. Some people would buy farm loan bonds at 5 per cent in preference to joint-stock land bank bonds at 5½ per cent.

Mr. MACGREGOR. Let us get this clear. As I understand it, the joint-stock land bank bonds—the money derived from the sale of them—would go for the use of the people in particular States. Therefore, would it not work out that the rest of the people of the United States would be penalized for the benefit of the people in those particular States?

Mr. MITCHELL. I can not see that anybody would suffer.

Mr. MACGREGOR. I can not see why they would not. It works out naturally.

Mr. CLAGUE. In the city of Buffalo how many nontaxable city bonds does your city issue?

Mr. MacGregor. Entirely too many. I do not know how many.

Mr. Clague. Does not that, on the same principle, tax other people just a little bit?

Mr. MacGregor. But the whole proposition is rotten.

Mr. Clague. New York City has recently issued more than all the rest of the United States together.

Mr. Steagall. It can not be said that to give the farmers of any State an opportunity to pay a higher interest rate to borrow money inures solely to their benefit. The fair reasoning is that the prime benefit goes to the lender who gets that interest.

Mr. Echols. I find that a number of these joint-stock land banks are now borrowing at a loss. One of them, the Dallas joint-stock land bank, Dallas, Tex., lost on an average of 9 per cent annually, and the Southern Minnesota joint-stock land bank lost an average of 2 per cent.

If these banks can not borrow at a margin of 1 per cent, how are they going to borrow at a margin of one-half per cent? How are they going to sell their bonds when they are losing on a margin of 1 per cent?

Mr. Mitchell. The reason that the joint-stock land banks to-day are losing money, I judge, is because they have made their loans at a 6 per cent net rate to them, and they can not sell the bonds at 5 per cent, and they have got to carry these bonds. In order to carry them they have got to pay 7 per cent, or possibly 7½, or perhaps 8 per cent. That is a losing operation.

Mr. Echols. These banks have had about $78,000,000. How much would this bill increase the sale of bonds?

Mr. Mitchell. I do not know how many bonds they are carrying. I do not know how many bonds they have unsold.

Mr. Echols. This statement shows the amount of bonds sold.

Mr. Mitchell. I presume there will be a market immediately established for these joint-stock land bank bonds, if the rate is increased to 5½ per cent at par. I think the bonds can be readily sold at par.

Mr. Echols. They have been selling them below par.

Mr. Mitchell. Some of them have been sold below par. They have been trying to sell them at par.

Mr. Echols. Is not that in violation of the law?

Mr. Mitchell. I do not believe it is. I have not looked into that matter. An investor will buy a 5½ per cent bond at par in preference to a 5 per cent bond at a discount.

Mr. Echols. Will an investor buy any sort of bond in a concern that is losing money?

Mr. Mitchell. These bonds are secured by mortgages on farms. They look to the farm for security rather than the obligation of the joint-stock land bank.

Mr. Echols. They must look to the bank first. Of course finally it goes to the mortgage on the farm.

Mr. Mitchell. If I were buying them I would look to the section in which they were doing business and rely on the farm security back of it.

Mr. Echols. That is all.

(Witness excused.)

The CHAIRMAN. At this point in the record I would like to have the stenographer insert a letter, dated July 22, 1921, from Judge Lobdell, farm loan commissioner.

(The letter referred to is as follows:)

TREASURY DEPARTMENT,
FEDERAL FARM LOAN BUREAU,
Washington, July 22, 1921.

DEAR CHAIRMAN MCFADDEN: In response to your kind invitation, my colleagues on the Farm Loan Board will appear before your committee this morning to discuss H. R. 6035—the Clague bill.

I was not originally in agreement with my colleagues as to the wisdom of this measure, but in view of the status it has now attained, while perhaps not adopting entirely their reasons, I am disposed to acquiesce in their conclusions that it will be wise to pass the bill.

Respectfully, yours,

CHAS. E. LOBDELL,
Farm Loan Commissioner.

Hon. L. T. MCFADDEN,
Chairman Banking and Currency Committee,
House of Representatives.

The CHAIRMAN. Mr. Lever, do you care to make a statement?

STATEMENT OF HON. ASBURY F. LEVER, MEMBER OF THE FEDERAL FARM LOAN BUREAU.

Mr. LEVER. Mr. Chairman, I am accompanied by my colleagues on the board, Capt. Smith and Mr. Joyce. Mr. Lobdell has submitted to you a letter, which has just been placed in the record.

This bill is introduced by Congressman Clague, as I understand it. I think its terms will show it is applicable to the bonds of both the joint-stock land banks and the Federal loan banks. You are considering the Senate bill, I understand.

The CHAIRMAN. Yes.

Mr. LEVER. The Senate bill makes the same provision?

The CHAIRMAN. They are exactly the same.

Mr. LEVER. Mr. Chairman, let me say that the bill that you are considering applies to the bonds of both the joint-stock land banks and the Federal land banks. It proposes to raise the rate on the bonds issued by the farm loan system from 5 per cent to $5\frac{1}{2}$ per cent.

This bill originated largely at the instance, I think, of the representatives of the joint-stock land bank people. It has been submitted to the Federal Farm Loan Bureau, and our views—expressing the view of the majority of the board—that the bill should pass.

I will call your attention, Mr. Chairman, to this fundamental fact in reference to the farm loan system. It is a system intended to mobilize the credits of agriculture and to sell those credits to the investing public, and from the proceeds of such sale the farmer is to receive his money for a long-time loan with the right of repayment on the amortization plan.

The Farm Loan System was intended by its proponents to serve the long-term agricultural needs of the Nation. It can serve those needs only as it has money with which to serve them. We are either forced to the position of relying upon the system through its

own operations to develop the money we loan farmers, or we must come back to the Government and make ourselves purely a paternal institution.

Speaking for the present personnel of the Farm Loan Bureau I think I may safely say that we have no ambition to seek the Treasury of the United States to operate this system. We wish to rely entirely, or as far as we can, upon the machinery furnished us by Congress to procure funds.

It is fundamental also, gentlemen, that if you are selling goods in competition with other salesmen you must make the price of your goods such that they will sell. If we can sell a 4½ per cent Federal farm-loan bond, as we have done, with an allowable rate of 5 per cent, as fixed by the law, it does not necessarily follow, and I trust, so far as the Federal land banks are concerned, that it will not follow, that an increase in rate, the legal rate permissible, shall force us to sell above a 5 per cent bond. That does not logically follow. It has not followed in the practice of the system heretofore. But I do feel that the agriculture of the Nation is going through a crisis, such, surely, as I have not experienced, and I do not believe any man in this room has experienced, and if anything is necessary to be done that can legitimately be done within the bounds of reason to afford even a slight measure of relief to the situation, then, in my view, that measure should be taken.

You recall, gentlemen, that Congress recently enacted what is known as the Curtis-Nelson bill increasing the depositary privileges to the Federal land banks from $6,000,000 to $31.000,000 at any one time. So far we have not been called upon by necessity to avail ourselves of that privilege, but it is certain within the next 15 days or 30 days at the most that we shall have to avail ourselves of that privilege. We shall go to the Treasury, perhaps, and ask for $20,000,000 or $25,000,000 to be deposited with these various 12 land banks.

The CHAIRMAN. Right there, Mr. Lever, will that permit you to accumulate sufficient mortgages to get out the size bond issue that you want to get out?

Mr. LEVER. It will allow us to get out a reasonable sized bond issue. I think it will permit us, Mr. Chairman, to get out a bond issue as large as the public will absorb at this particular time.

The CHAIRMAN. I asked that because there are a good many members still confused about what we did with that last bill, saying that we should have appropriated more money. That would not have permitted you to sell more bonds, would it?

Mr. LEVER. Not necessarily so.

The CHAIRMAN. It would have been an additional aid from the Treasury, would it not?

Mr. LEVER. Yes; it would have been. The point in that proposition is this: The Curtis-Nelson bill gives us, if we can sell bonds—and remember that that last clause is very important—"if we can sell bonds"—what practically amounts to a revolving fund of $31,000,000.

We are going to use this money. It is our purpose in the latter part of September or the first part of October to undertake the

flotation of another issue of Federal farm loan bonds. We would have to float them under the present act at 5 per cent or not at all. If we could not float them at 5 per cent, then the loaning operation of the farm-loan system automatically ceases because we are without money.

The CHAIRMAN. What effect will the issue by the joint stock land banks within the next 60 days, prior to the issue of your bonds on October 1, have on the market situation as affecting your issue?

Mr. LEVER. I think that would depend, largely, Mr. Chairman, upon the market conditions at the time. Though I doubt if the issue of Federal joint-stock land bank bonds would have any particular effect upon the marketing of Federal farm loan bonds. There is a psychological difference in the value of these two bonds. I do not think there is any real, genuine difference because each of these bonds has 200 per cent security back of it; but there is a psychological difference.

The CHAIRMAN. The reason I mention that is that many investors in farm loan bonds do not distinguish the difference between the two classes.

Mr. LEVER. That is very true.

The CHAIRMAN. For instance, a gentleman who is a very large buyer of all kinds of investment securities only a few weeks ago was talking about it. I asked him which class he was buying, and he did not know. He had to go and look them up. He said, "What is the difference? I did not know there was any difference between the two classes." He was an experienced investor.

Mr. DUNBAR. What is the psychological difference?

Mr. LEVER. Most people think the Federal farm loan bond is a better bond than the joint-stock land bank bond.

Capt. Smith, my colleague, suggests that the capital stock of the 12 Federal land banks are all liable for the redemption of these bonds, while each individual joint-stock land bank alone is responsible for its bonds.

The CHAIRMAN. As I understand you, then, Mr. Lever, it is the purpose of the Farm Loan Bureau to issue the next bonds at 5½ per cent?

Mr. LEVER. No. I do not desire to be understood as saying that, and I do not think I conveyed that impression.

The CHAIRMAN. Mr. Strong quoted yesterday Capt. Smith, of the bureau, to the effect that in all probability the banks would ask 5½ per cent——

Mr. STRONG. I think you are mistaken.

The CHAIRMAN. What was your statement?

Mr. STRONG. They had informed brokers that they perhaps would have to have a higher rate of interest. It might be 5¼ per cent, was his statement to me.

Mr. LEVER. I think that is the view of the three of us who are here, and I think Judge Lobdell acquiesces in this view. We are not going to sell a land bank bond for one penny more than we have to sell it for; but, on the other hand—and here is the crux of the situation as it appeals to me—this institution was inaugurated to serve a need. It can not serve that need without money. It can

not secure that money without meeting the market competition, whatever it may be; and in this emergency, Mr. Chairman, I do not hesitate to say that I am going to hold back in the back straps as much as possible and as long as possible. But to meet this situation I am willing to sell a Federal farm loan bond at such a price as will sell the bond and get the money.

The CHAIRMAN. Is it not a fact that if Congress gives you this authority to increase the rate to 5½ per cent, when you come to make the negotiations with your bankers, they, having the knowledge that you have the authority to make it 5½ per rent, will exact 5½ per cent?

Mr. LEVER. That does not necessarily follow, for this reason, Mr. Chairman: The law now provides a 5 per cent bond. But notwithstanding that fact, the Federal Farm Loan Board, before I became a member of it, floated a considerable bond issue at 4½ per cent. So that it does not necessarily follow for the reason that you have a 5½ per cent rate in the act that you are going to be forced to use it. In other words, we are going to use it only to meet competition and to bring ourselves within market conditions as they exist at the time.

The CHAIRMAN. You are practically in an 8 per cent market, and some railroads and industrial concerns and business organizations are paying as high as 8 per cent, and sometimes a banker's commission above that at the present time. You speak of the great need of the farmers, and I admit that the need is pressing. There is no question about that. The great question in my mind is whether we are going to be able to sell with the competition for money and the shortage of capital that exists. In view of that situation would you think that it was advisable to raise the rate of interest to farmers proportionately?

Mr. LEVER. The rate of interest to the farmers?

The CHAIRMAN. Yes.

Mr. LEVER. That would be difficult for this reason, Mr. Chairman, that about 12 States of the Union have a legal rate of 6 per cent, and it would be necessary for their legislatures to meet to amend their acts before we could do business. Some of them could not meet for two years, perhaps. I do not know just what the situation is.

The CHAIRMAN. Then if you can not sell your bonds at 5½ per cent we are up against a very difficult proposition.

Mr. LEVER. We are, indeed; though we have every confidence that we can sell our bonds within that limit. I do not think it will exceed the present 5 per cent rate, although I am not sure of that. It is a guess.

Mr. STEVENSON. I notice in this latest statement that the farm loan banks have a reserve of $3,428,000 that has been accumulated, selling at a margin of 1 per cent.

Mr. LEVER. Yes.

Mr. STEVENSON. So you would have some leeway at a margin of three-quarters of 1 per cent and still do business?

Mr. LEVER. Mr. Chairman, answering my former colleague, let me say this: I perhaps do not speak the views of my colleagues on the board. I think my long service here with you gentlemen entitles me to be perhaps a little more free in my expression than the ordinary administrative officer would be before a committee.

These Federal land banks can operate on ½ per cent margin, now we have got started. I am willing, as far as I am concerned, in the interest of the agriculture of this Nation, which is suffering as it has never suffered before, that these 12 Federal banks shall operate during this emergency without one penny of profit, if necessary, to keep them going.

The CHAIRMAN. In that connection, is it your opinion that the joint-stock land banks can operate on one-half of 1 per cent margin?

Mr. LEVER. No; oh, no; they can not do that, I do not think, but I am not advised as to that very thoroughly. I do not believe they can. Mr. Powell can tell you more accurately about that than I can.

Mr. BLACK. There is one point that I do not believe has been brought out.

There is considerable agitation in the tax revision measures with reference to lowering the surtax; for instance, that the Government would collect more income-tax revenue than it now collects on account of certain large investors seeking tax-exempt securities. If the Ways and Means Committee should bring out a bill lowering the surtax rates down to where the maximum would be 30 to 35 per cent, and Congress should adopt that and pass a law of that kind, that would very probably make necessary, even for that one reason, a high rate of interest on farm loan bonds?

Mr. LEVER. That is possible.

Mr. BLACK. Of course, you have no figures to show what class of investors buy these bonds?

Mr. LEVER. No, sir; except that I can say this in a general way: I was rather surprised to find out myself that the latest issue of $40,000,000 bonds which we sold for the Federal land banks went into more hands than any other bond issue we had made so far in the system.

Mr. BLACK. Of course, the argument is frequently made that they are all going into the hands of the large holders.

Mr. FENN. The general public would buy them.

Mr. BLACK. And that being true, the lowering of the surtax rate would have no particular effect?

Mr. LEVER. Possibly it would not affect it at all.

Mr. MACGREGOR. Are you in favor of the increase of the size of loans?

The CHAIRMAN. He refers now to pending legislation here increasing the limit from ten to twenty-five thousand.

Mr. LEVER. Judge Lobdell and I appeared before the Banking and Currency Committee of the Senate on Monday of this week and expressed the views of the board as being opposed to that raise in the maximum, and for the reason, gentlemen, that, work as hard as we may, with your support, given as liberally as we have been given it, we are not able now to get sufficient money to meet the demands of the farmer in this country, and we feel that it is more in the general interest to accommodate 10 average-sized farmers with $2,500 loans than it is to accommodate one large farmer with a $25,000 loan. We stand upon that general proposition.

The CHAIRMAN. Thank you very much, Mr. Lever.

(Witness excused.)

The CHAIRMAN. We have here Capt. Smith, a member of the board.

STATEMENT OF CAPT. W. S. A. SMITH, MEMBER OF THE FEDERAL FARM LOAN BUREAU.

Mr. SMITH. I would like to make one statement, Mr. Chairman. You will all readily understand that the reason that we might be able to operate on one-half of 1 per cent is due to the business that we have got on our books. The same thing applies to the joint stock land banks. If this rate goes to 5½ per cent and the joint stock land banks should bring out an issue at 5½ per cent they only have a working margin, and as there are only four or five of them that have business enough on their books to keep on at that rate, there is very little fear of this country being flooded with a lot of these bonds, because they can not afford to do business on one-half per cent for any great length of time.

Mr. LUCE. Would it mean that if they lent more money they would lose more money.

Mr. SMITH. A profit comes after you get your overhead expenses up to a certain point. The farm loan system to-day has a surplus of $3,000,000. We have also got a net revenue of $3,000,000 a year. We could go on indefinitely selling at that through this emergency for a long time to come.

But the joint-stock land banks who are so unfortunate as to be just starting have got no bonds sold, and those who have only a million or two of business on their books can not keep on selling bonds at one-half per cent. There is no chance in the world of flooding this country, we think, even if you raise the rate to 5½.

Mr. BRAND. The object of the Curtis-Nelson bill was to let the farmers have money, was it not?

Mr. SMITH. Yes, sir. We have just sold $40,000,000 worth of bonds.

Mr. BRAND. That does not take care of one-tenth of the situation.

Mr. SMITH. We can not afford to go ahead faster than we have means.

Mr. BRAND. You have got the means provided by that bill, have you not?

Mr. SMITH. Our system is so large that unless we are very careful the first thing we know we have $30,000,000 or $40,000,000 worth of commitments ahead with no money in sight.

Mr. BRAND. The money is in sight. Why do you not get it and utilize it?

Mr. SMITH. That would be used up inside of a month.

Mr. BRAND. You have not used any of it yet, have you?

Mr. SMITH. No.

Mr. BRAND. What has caused the delay in using it?

Mr. SMITH. Because we are using up the forty-millions issue which has only just been floated. That will last us two months There will be another bond issue in September or October.

Mr. BRAND. The reason I asked you that question is that there are 13 counties in my district and there are about 13 associations in it, and not a single, solitary one of them has a dollar since they were organized except the old associations.

Mr. SMITH. I can illustrate that.

Mr. BRAND. That is the fact about it, and that is why I am asking this question for information.

Mr. Smith. This $30,000,000 you are speaking of now?

Mr. Brand. Yes.

Mr. Smith. Just to show you how far $40,000,000 will go, a certain bank was allotted $4,000,000 out of this last $40,000,000. The president of the bank, when he got it, wrote to me and said, "I have 400 associations in my district and I am allowed to lend $10,000 to a county." Where would that $40,000,000 go?

Mr. Brand. I have 13 counties that have not got any. I am not complaining particularly, but I am very much concerned where we are going to get any money.

Mr. Strong. Mr. Chairman, let us hold it to this proposition. We have got to get through with this matter.

Mr. Lever. If you desire it for the record I will try to explain it. The situation is this, gentlemen. We began loaning this $40,000,000 with a disorganized organization which had gone to pieces, as it were, and been reduced to a mere skeleton during 1918. We could not afford to use untrained men in appraising land values. We had to collect a number of appraisers and put them under our trained appraisers and get them in position so that they could pass accurately and with sound judgment upon the property which they had to appraise. It would have been almost criminal if we had permitted inexperienced men to have appraised farm lands where we were making a mortgage loan for 33 years, and we had necessarily to go about this matter intelligently. But I can say that your associations are going to be taken care of right soon.

Mr. Brand. I hope they will before I go home.

Mr. Appleby. I want to ask the gentleman a question on the basis of how he makes his loans, whether it is on recent sales as to values or prospective figures at which the farm is held?

Mr. Lever. The law provides that the value reached in appraisal shall be based primarily upon the productivity of the farm, what it will produce in dollars and cents. Of course, the recent sales are taken into consideration.

But do not be misled by feeling that we have permitted the speculative craze through this country to come into our system. We have put a limit upon the amount that may be loaned upon a single acre of land.

Mr. Wingo. I have a list of sales from one land bank district, lands which were sold on which the farm loan system had mortgages, and it showed that the appraisals had been very conservative. In other words, the sales were a great deal higher than the estimated value that the loan was made on.

Mr. Lever. That is true generally throughout the system.

STATEMENT OF HON. W. H. JOYCE, MEMBER OF THE FEDERAL FARM LOAN BUREAU.

Mr. Joyce. Mr. Chairman, I have not much to offer in addition to what has already been said. To my mind, the duty of this system, the prime, the big duty of this system, is to function. Here is the situation with regard to this bill, in my mind. We do not want to face the proposition here on the 1st of October or in the latter part of September of shutting down or being halted in our operation. We do not want to take that chance. In other words, after we use

this deposit privilege, which we will begin to use probably next month, we want to put out a general issue of bonds in the latter part of September or the first part of October.

If we undertake to sell our bonds on a market that will not absorb 5 per cent bonds, our system is halting. As Mr. Lever says, we hope to be able to sell a 5 per cent bond. We have sold the 4½ per cent bonds. It may be necessary to raise the rate a little, or it may not be necessary at all. I only want the door open.

The CHAIRMAN. You feel an equal interest, then, for the Federal land banks

Mr. JOYCE. Decidedly; yes. We do not want to take a chance. I do not want to take any chance of halting the operation of this system on account of being debarred by an interest rate as it is in the present law, 5 per cent.

Mr. BRAND. When was it that you sold these bonds at 4½ per cent?

Mr. JOYCE. Two years ago. We sell a bond at whatever the market will stand. This is a permissive rate, 5½ per cent. In October, if no miracle happens in the financial situation in this country by which we can sell a 4½ per cent bond, we will sell a 5½ per cent bond.

Mr. BROOKS. Do you believe with the other witnesses that it is necessary now, in order to sell the bonds, to raise the rate to 5½ per cent?

Mr. JOYCE. My position, sir, is this, Mr. Congressman, that I want the door open——

Mr. BROOKS. I understood you to say that, but do you believe with the other witnesses that it is necessary, that the emergency is right here now that requires a 5½ per cent rate?

Mr. JOYCE. Yes, sir.

Mr. NELSON. Mr. Joyce, may I ask one question? It has been stated several times that the raising of this rate to 5½ per cent may have an additional tendency to depreciate our Liberty bonds. Is it your opinion that that would have any more tendency to do that in this case than it does in the fact that the Treasury certificates are now selling at 5½ or 5¾?

Mr. JOYCE. I do not think so, sir. It is so small, relatively, compared with the amount of tax-free bonds issued in this country it is a very, very small percentage. It is hardly to be appreciated.

Mr. NELSON. Do you think, in your judgment and the judgment of the board, then, that that argument really is not good at all?

Mr. JOYCE. I do not think so.

Mr. NELSON. We understand, then, that it is your combined judgment at the present time that this bill ought to pass, and that you believe it will work to the advantage of both Federal land banks and the joint-stock land banks alike?

Mr. JOYCE. Yes, sir.

Mr. APPLEBY. Of course the rate would figure also. The price of the bonds will necessarily go down?

Mr. JOYCE. Not necessarily.

Mr. APPLEBY. You can not put a 5½ per cent bond out and still expect your bonds to sell.

Mr. JOYCE. They are not offered on the market very freely. They are held for permanent investment. Very few of these bonds change hands. After they are once placed they are placed. At this

last sale it developed they were very widespread and sold all over the United States.

Mr. DALE. Were any of these bonds sold at less than par?

Mr. JOYCE. This last issue?

Mr. DALE. Any of the land bank bonds.

Mr. JOYCE. Yes, sir. Four and a half per cent bonds are quoted now at a little under par. The last 5s were sold a little under par, but very, very few are being sold at all on the market.

Mr. DALE. Is not this the fact, that while our Government bonds are away under par the men who bought Liberty bonds can not get the money that they put into them? These bonds are selling practically at par?

Mr. JOYCE. Very near par; yes, sir. They have stood up very well.

The CHAIRMAN. Do you want to make a statement, Mr. Powell?

Mr. POWELL. I think the case has been very well stated.

Mr. STRONG. I would like to ask you to state to the committee what you believe the opportunity will be to sell these bonds.

STATEMENT OF MR. W. P. POWELL, SECRETARY AMERICAN ASSOCIATION OF JOINT STOCK LAND BANKS.

Mr. POWELL. We think the opportunity is very encouraging. With the prospect of this bill passing we have made inquiries of bond houses and have taken some of the initial steps toward forming a syndicate to handle the bond issue in case we are permitted to issue bonds at a higher rate.

The CHAIRMAN. How many bonds do you propose to issue?

Mr. POWELL. That has not been determined, but I think the first issue will be about twenty millions.

The CHAIRMAN. Thirteen of that will be used in liquidation of your loans which are now out, with the bonds as collateral, I suppose?

Mr. POWELL. Yes, sir. We expect, of course, to make other issues as soon as we can handle them.

The CHAIRMAN. Mr. Silver, do you want to make a statement?

STATEMENT OF MR. GRAY SILVER, LEGISLATIVE REPRESENTATIVE OF THE FARM BUREAU FEDERATION.

Mr. SILVER. I am very much interested in this bill being reported out, and it is based on the known needs of the farmer. We are at this time taking a referendum on what money is costing the individual farmer. Tens of thousands of farmers are at this time not only paying high and excessive rates of interest, but are paying large bonuses, or commissions, in addition to the interest. They have no place to turn to get this money at a reasonable rate unless this system functions. It is not at this time functioning. There is a small amount of money, a comparatively small amount, going out through farm loan associations. Joint-stock companies are not functioning, because bonds are not selling in sufficient volume to take care of anywhere near the needs.

As Capt. Smith tells you, on the last allotment $10,000 went to an agricultural county. What does that mean? If the farmer is not going to be financed better than that he can not "carry on."

When he goes to the bank to deposit and gets a short-time loan he is confronted with what Judge Clague told you about a while ago. He is often in the clutches of an unscrupulous fellow who charges an excessive rate of interest.

In addition to that, I have a letter in my pocket which states where national banks have notified their customers that have loans with cotton as collateral that unless paid by a certain date this collateral will be sold; that the cotton will be dumped on the market——

The CHAIRMAN. Do you not wish to give the committee the benefit of that letter by having it placed in the record, Mr. Silver?

Mr. SILVER. I will be very glad to do that.

(The letter referred to is as follows:)

THE FIRST NATIONAL BANK,
——— *Ala., June 24, 1921.*

Mr. M. B. WELLBORN,
Governor Federal Reserve Bank, Atlanta, Ga.

DEAR SIR: On June 15 we notified all customers who owed us notes secured by warehouse receipts for cotton that we would expect them to sell cotton and pay their notes July 1. Since that time cotton has declined, and they are teeming in to see us, begging more time.

We are at a loss to know what to say to them until we learn how you feel about what we owe you.

We realize and appreciate the fact that you have been exceedingly nice and good to us, and we do not feel warranted in giving our customers who are holding cotton further extensions unless it is perfectly satisfactory with you to give us extensions.

They all think, as they have been thinking since last fall, that cotton will go up and that it will not be fair and just to force them to sell on this down market.

We have enough paper secured by cotton to pay you all we owe you on rediscounts.

Please advise us your wishes in the matter and your opinion about cotton.

Yours, very truly,

——— ———, *Cashier.*

Mr. DALE. Mr. Silver, the different men appearing here before this committee make the same statements that you have made and that Representative Clague has made. These States have statutes prohibiting usury and prohibiting just exactly what you say is being done. Why do you not get after those fellows?

Mr. STRONG. Then they would not allow them to have the money at all.

Mr. DALE. Exactly. Mr. Strong says because you are afraid to go after them.

Mr. KING. No; he did not say that.

Mr. STRONG. No; I say if they prosecute them they would not allow them to have the money at all.

Mr. SILVER. The farmer dare not refuse to comply, because there is no other source from which he can get money. He is held up and pilloried right against that situation, and we are asking this Congress to give us something we can use that will take us away from that situation.

I just wanted to call your attention to the acute situation existing.

The CHAIRMAN. I want to put into the record a letter from the Secretary of the Treasury under date of July 9, inclosing a letter from J. R. Mitchell, of the Federal Reserve Board, to the Secretary of the Treasury, dated July 7; also a telegram which I received this morning from the Minnesota Farm Bureau Federation.

Mr. FENN. Are these favorable to the bill?

The CHAIRMAN. Yes.

(The letters and telegrams referred to and submitted by the chairman are as follows:)

TREASURY DEPARTMENT,
Washington, July 9, 1921.

MY DEAR MR. MCFADDEN: I have received the inclosed letter from Mr. J. R. Mitchell, of the Federal Reserve Board, relating to H. R. 6035 as amended, copy of which bill with amendment is attached. It seems to me that with the limitation of the time within which the 5½ per cent rate can be effective, there is no serious objection to the measure.

Sincerely, yours,

A. W. MELLON.

Hon. LOUIS T. MCFADDEN,
Chairman Committee on Banking and Currency,
House of Representatives.

FEDERAL RESERVE BOARD,
Washington, July 7, 1921.

DEAR MR. SECRETARY: As suggested in our conversation this morning, I am inclosing a copy of H. R. 6035 bearing the proposed amendment. If the amended bill meets with your approval, your kindness will be appreciated in so advising Hon. Louis T. McFadden, chairman of the Committee on Banking and Currency. The bill does not increase in any way the interest to be charged the borrower, but decreases the profit to the Federal land banks and the joint stock land banks. The proposed amendment, you will observe, limits the time to December 31, 1925, in which the bonds to be issued under the act can bear as high a rate as 5½ per cent. After that time the original rate of 5 per cent would prevail.

This bill has been passed by the Senate and as soon as it becomes a law a great amount of relief will be afforded to the agricultural sections, as the joint stock land banks will be able to make loans to the farmers and sell their bonds on a profitable basis. This will make it possible for the farmers to reduce their indebtedness to the country banks, thereby relieving the over-loaned condition of many banks in the country districts.

I have discussed the proposed amendment with Mr. Frank Clague, the author of the bill, and it is entirely satisfactory to him.

Yours, very truly,

J. R. MITCHELL.

Hon. ANDREW W. MELLON,
Secretary of the Treasury.

WHEATON, MINN., *July 21, 1921.*

Hon. LEWIS T. MCFADDEN,
Chairman Committee on Banking and Currency,
House of Representatives, Washington, D. C.:

Understand your committee unable to agree on Clague bill. The Agricultural situation in Minnesota requires its immediate enactment. Conditions here have never been more distressing. Farmers feel convinced this measure will give them substantial and immediate relief. Our organization looks to you for assistance in not only having the bill favorably reported, but also enacted. Nothing else will help our cause.

MINNESOTA FARM BUREAU FEDERATION.
By V. E. ANDERSON, *Assistant Secretary.*

Mr. STRONG. I want to appeal to my colleagues on the committee to pass this bill. A statement was made awhile ago to the effect that the gentlemen from Kansas who appeared before the committee had stated that mortgages were not being foreclosed out there. That is true, but I do not want that statement to be taken as evidence of the fact that we are not needing money out there.

Here is the situation: The stockmen in Kansas had an awful loss last year. They sold their cattle at a loss of from $30 to $40 or $50 a head. Men who had large quantities of wheat that cost them $2.50 a bushel to produce, sold that wheat for $1.40 or $1.50 a bushel. The banks are asking those farmers to liquidate their indebtedness. About the only way they can do that is by making loans upon their lands. Our loans were generally made—up to a very recent period—by money furnished from the East. Now, these loans are being withheld and withdrawn because of the attractiveness of increased interest rates in the East, and we can not get the money out there and the banks need it. The financial situation would be helped if this farm-loan system and the joint-stock system could function.

I want to read a telegram that was sent to me by a gentleman who appeared before this committee—Mr. McAuliffe—a week or 10 days ago.

(The telegram referred to is as follows:)

SALINA, KANS., *July 6, 1921.*

Congressman J. G. STRONG,
House of Representatives, Washington, D. C.:

I trust you will give your support for immediate passage of Clague bill (H. R. 6035). Passage of this bill will enable joint stock land bank at Salina to loan $1,000,000 in this district to farmers and stockmen who are badly in need of funds. Recent drop in wheat market has hurt us badly and live-stock situation is serious. Any legislation that will assist in loaning money to farmers now should be supported and passed. The Senate has passed this bill and we understand it is now up for consideration in the House. If you will use your best efforts to secure passage of this bill you will be assisting in a manner that will be appreciated and never be forgotten. Would you kindly wire me if it would be possible to get bill up for passage this week. Will be in Washington shortly and see you in behalf of this bill.

MAURICE MCAULIFFE,
President Farmers Union of Kansas.

On yesterday he wired me as follows:

SALINA, KANS., *July 21, 1921.*

Hon. JAMES G. STRONG,
Wardman Park Hotel, Washington, D. C.:

Understand committee vote this morning on Clague bill tie. Do everything you can Mr. Strong to get the committee's approval of this bill. The little assistance that will be rendered in our community will help us all immensely and you will never regret it.

MAURICE MCAULIFFE.

Gentlemen, I also have a telegram from the Farmers' National Bank of Salina, Kans., which is not a farm loan bank. I offer the telegram simply as evidence of their needs.

(The telegram referred to is as follows:)

SALINA KANS., *July 21, 1921.*

Hon. JAMES P. STRONG,
Congress Hall, Washington, D. C.

Friends of Clague bill inform us of tie vote of committee this morning. We are all interested in passage of this bill and beg you to use your influence in securing the committee's approval. Means considerable money to the farmers in this district and at a reasonable rate of interest.

FARMERS' NATIONAL BANK.

Gentlemen, it seems to me that with the urgent need of the agricultural communities for relief and with the approval of this bill by

the Secretary of the Treasury and the Federal Reserve Board we ought to have it reported out unanimously——

Mr. SCOTT. When did the Secretary of the Treasury indorse the bill?

Mr. STRONG. I understand that the chairman just put in a letter——

Mr. SCOTT. How recently was that letter written?

The CHAIRMAN. July 9.

Mr. STRONG. I do hope you will give us this relief.

Mr. FENN. Your banks out there do not act as agents for these loaning companies?

Mr. STRONG. Our banks loan money through agencies that sell their farm mortgages in the East.

Mr. FENN. Do not the agencies in the East furnish the money?

Mr. STRONG. They are not doing it now. Consequently, the farmers are urging the passage of this bill in order that the financial situation may have relief.

(Whereupon, at 12.15 o'clock p. m., the committee went into executive session.)